

# How IMF's Structural Adjustment Programmes Violate ILO Conventions in Pakistan

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## INTRODUCTION

Pakistan is one of those countries in the world which has most frequently adopted the lending arrangements of the International Monetary Fund ('IMF')<sup>1</sup>. The impact of IMF policies on economic and social fabric of the country is considered often a source of public scrutiny. To seek lending arrangements from the IMF, the Government of Pakistan generally agrees to various economic conditionalities in letters of intent.

These economic conditionalities are structural economic decisions which GoP aims to implement pursuant to the instalments – or tranches – of the IMF. The idea of these structural adjustment programmes (SAPs) is to promote national ownership of the lending arrangements, and to solve those issues which IMF considers as 'plaguing' the country<sup>2</sup>. However, it is often considered that these SAPs of IMF are 'anti – working class', detrimentally impacting labour. Therefore, this essay shall investigate the link between the economic policies enunciated in these IMF SAPs in Pakistan and the exacerbation of violations of the International Labour Conventions.

## TRADE LIBERALISATION, PRIVATISATION AND UNEMPLOYMENT

Trade liberalisation is the hallmark of the SAPs of IMF in Pakistan. However, it has added to the premature deindustrialisation of Pakistan, resulting in reducing employment opportunities for industrial labour. If there is any reduction in tariff rates and energy prices are rationalised, capital flight from the country becomes easy and imports increase. The dissonance arises because tariff reduction works only if there is an already established industrial base in the country<sup>3</sup>.

It is also observed that SAPs of IMF incentivise the production of cash crops to earn prompt foreign exchange which further increases the process of deindustrialisation. This process was best illustrated in cement and pharmaceutical industries in which Pakistan became dependent on foreign imports even though the country was self-sufficient before these liberal economic reforms<sup>4</sup>. The shift from building an industrial base to pushing preferential policies for agricultural equipment increased access to land for rich farmers and poor farmers were forced to take jobs in industries, causing further unemployment for labour and market saturation<sup>5</sup>.

Pursuant to the IMF SAPs, privatisation of state-owned enterprises (SOEs) has also increased. This led to a revision in the model of governance of these SOEs, which generally led to a reduction of output and increases in price. In the cement sector, it was observed that wages of low-income staff steadily decreased due to these privatisation programmes and there was a marked increase in retrenchment. It is also important to note that the white collar employees were not impacted much by the privatisation waves and the upper middle class employees often became conduits of exploitation of working class labour<sup>6</sup>.

This whole economic environment in Pakistan clearly violates the International Labour Conventions, especially the Employment Policy Convention ('C-122'). It is one the seminal pieces of labour conventions which require States to adopt economic policies that provide employment in a manner that ensures access to everyone irrespective of background<sup>7</sup>. The adoption of trade liberalisation and privatisation due to SAPs of IMF fosters the ideal environment to obstruct countries from complying or taking steps towards the ratification of C-122.

## INFORMAL ECONOMY

A relationship between economic integration with global markets and expansion of the informal sector has also been observed as a consequence of IMF-led SAPs.

Due to increases in taxes, reduction in tariffs and adoption of small governance mechanisms – which are all a corollary of SAPs – push factors towards the informal economy increases<sup>8</sup>. In the trade liberalising reforms from 1988 – 2005 in Pakistan pursuant to the SAPs of IMF, this process was especially evident<sup>9</sup>. Thus, it was no surprise that a PILER study of Karachi power loom weavers in 2010 stated that 90% of labour was working 12 hours per day, 93% did not have any paid weekly holidays, and 99.8% were not accorded any overtime wage<sup>10</sup>. Moreover, not even one of the workers had formal contracts whilst only 2 out of 1000 industrial labour were registered on EOBI<sup>11</sup>.

ILO considers the informal economy as part of that system with either no legal regulatory oversight or insufficient protection. Member states are required to safeguard labour from unsafe and unhealthy working conditions which include occupational hazards and absence of safety nets in the informal economy<sup>12</sup>. It is important to note that the workers must be protected from harmful substances such as carcinogenic substances. However, they are more prone to such environment in an informal economy<sup>13</sup>. In terms of remuneration, ILO recommends to Pakistan that this concept can include cash or in-kind, and all those perks which will be paid directly or indirectly<sup>14</sup>. Wages must be paid properly which is often not the case in the informal economy. Thus, it is quite evident that adoption of SAPs leads to the expansion of economic informality which increases the chances of violations of International Labour Conventions.

## GOVERNANCE AND LABOUR PROTECTION

IMF SAPs premise their sense of economic growth on the promotion of deregulation and foreign investment. This was perfectly illustrated when the neoliberal economic policies of 2000s resulted in a policy which stated that factories will only be visited after a notice of one month. Before this policy, factories were visited without any notice once a year. Similarly, for a certain time to promote business friendly policies like Punjab Industry Policy of 2003, Punjab simply placed a ban on labour inspections which was ultimately lifted due to several public mishaps<sup>15</sup>. Due to the shrinking of the size of government, which IMF often endorses, the capacity to enforce labour inspection further whittled down. Thus, it is no surprise that Pakistan generally considers lack of capacity and governance limitations as the biggest issue with regards to labour. Pakistani labour standards as well as the system of inspections are quite weak, with an utter lack of regard for the training of officials. In 2012, the ILO noted that there is only 1 labour inspector for 250,000 workers<sup>16</sup>. ILO also considered it problematic that most of these factories

were extremely guarded, such as military installations, and it was significantly challenging to access these factories<sup>17</sup>.

One of the most important pieces of legislation within the regime of International Labour Conventions is Labour Inspection Convention, 1947 ('C-81'). Article 3(1) of the C-81 states that the function of the labour inspection shall be to consider the enforcement of all the legal provisions relating to work hours and to bring before the competent authority any abuses which not are covered by existing legal provisions. Therefore, if the policies of labour deregulation and outsourcing of government functions are adopted, as the SAPs of IMF often espouse, ILO Conventions are violated as these policies clearly reduce the effectiveness of labour governance and provide an unfavourable environment to the government for protecting labour.

## GLOBAL ECONOMIC INTEGRATION AND LABOUR RIGHTS

One of the biggest issues which emerge pursuant to IMF-led SAPs is that the primary focus is on fiscal consolidation. For countries like Pakistan, the short-term measures to earn foreign exchange is through export of labour especially to countries of the Gulf Cooperation Council ('GCC') where they are subjected to excessive exploitation. For migrant workers, residence status is tied to the specific employer with no available recourse to complain against the employers in case of malpractice.

<sup>1</sup>Pakistan: History of Lending Commitments' (IMF, 31ST October 2018) <<https://www.imf.org/external/np/fin/tad/extarr2.aspx?member-Key1=760&date1key=2018-10-31>>

<sup>2</sup>'IMF Conditionality' (IMF, 22ND February 2021), <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/28/IMF-Conditionality>

<sup>3</sup>Shahrulkh Rafi Khan, 'IMF Conditions Stunt Growth', (2002) 37:44 Economic and Political Review, 4541, 4542

<sup>4</sup>Zulfikar Ahmed Bhutta, Structural Adjustment and their impacts on Health and Society, (2001) 30 International Journal of Epidemiology 712, 714

<sup>5</sup>Mahmood Hasan Khan, M. Ghaffar Chaudhry and Moazam Mahmood, 'The Structural Adjustment Process and Agricultural Change in Pakistan in the 1980s and 1990s [with Comments]', (1994) 33:4 The Pakistan Development Review 533, 569

<sup>6</sup>Iram A. Khan and Syed Tahir Hijazi, 'Impact of Privatisation on Employment and Output in Pakistan [with Comments]' (2003) 42:4 The Pakistan Development Review 513, 525

<sup>7</sup>ILO Employment Policy Convention 1964, (No.122), Article 1

<sup>8</sup>Robert G. Blanton1 & Bryan Early Dursun Peksen, 'Out of the shadows or into the dark? Economic openness, IMF programs, and the growth of shadow economies', (2018) 13 Rev Int Org 209, 312 -314

<sup>9</sup>Mengyun Wu, Jabbar -ul - Haq, Naeem - uz - Zafar and Huaping Sun, 'Trade liberalisation and informality nexus: Evidence from Pakistan' (2019) 28:6 An International and Comparative Review 732,

<sup>10</sup>Kamal A. Munir, Natalya Naqvi and Adorer Usmani, 'The Abject Condition of Labor in Pakistan', (2015) 87 International Labor and Working-Class History 174, 180

<sup>11</sup>Ibid

<sup>12</sup>Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), Article 2, 18, 19, 20

<sup>13</sup>ILO Convention on the Prevention and Control of Occupational Hazards Caused by Carcinogenic Substances and Agents, 1974, Article 2

<sup>14</sup>ILO Equal Remuneration Convention 1951, (No.100), Article 1 Equal Remuneration

<sup>15</sup>Human Rights Watch, "No Room to Bargain" Unfair and Abusive Labor Practices in Pakistan', (Report, January 2019) 52-57

<sup>16</sup>Inayatul Islam and Sher Verick, From the Great Recession to the Labour Market Recovery (Palgrave Macmillian 2011) 127

<sup>17</sup>Inayatul Islam and Sher Verick, From the Great Recession to the Labour Market Recovery (Palgrave Macmillian 2011) 127

Furthermore, global economic trends such as the Global Financial Crisis observed in 2009 also impacts such workers who are mostly young men employed in sectors such as industrial labour with temporary contracts<sup>18</sup>. Pakistan's economic policy of exporting labour to GCC crushes them as the Gulf sponsorship grant excessive power to the sponsor in terms of entry and exit to the country, issuance of passports and identification cards, and approval of any financial transactions. As a result, there are some grossly unreported violations of labour rights<sup>19</sup>.

Protection of Migrant Workers (Underdeveloped Countries) Recommendation, 1955 ('No. 100') provides a considerable number of protections to migrant workers which also fail to be upheld due to the policy of exporting Pakistani labour, especially to the Arabian Gulf. ILO places responsibilities on both the country of origin and host country. ILO states that the policy must be to discourage workers from emigrating if there shall be a detrimental effect on workers due to that migration. ILO requires from the countries of origin to develop such trainings and programmes that create opportunities and thus deter emigration to countries hostile to labour rights. Recruitment must not be taking place in origin countries for those countries which are hostile to the labour rights<sup>20</sup>. In this regard, the Pakistani state has failed to convince the countries, especially in the Arabian Gulf, to provide their migrant workers all kinds of protections in terms of labour rights, whether in terms of remuneration or safety of working conditions<sup>21</sup>. Since the objective of IMF policies is stabilisation of the current account, the governments themselves become accomplices in such abuses of ILO Conventions as they are dependent on dollar remittances – which leads them to wilfully ignore the exploitation.<sup>22</sup>

## CONCLUSION

It is apparent that IMF SAPs are harmful to the rights of labour of Pakistan and violate ILO Conventions. Unemployment increases due to privatisation and trade liberalisation which violates C-122. Informality in economic affairs is often the result of lower tariffs, imposed and complemented by increased taxation which results in a higher likelihood of violations of various ILO Conventions because there is no oversight of the government. Deregulation and outsourcing of government functions results in lack of labour inspections which the government is required to undertake under ILO conventions. These inspections serve as linchpins for the compliance of all other ILO Conventions. The fixation of the whole economic paradigm to stabilise the current account balance results in tunnel vision and haphazard export of low skilled labour to GCC which results in Pakistan's violations of ILO-100. In summation, in Global South countries where there is a dearth of inclusive political institutions, the application of pure liberal economics (also known as neoliberalism) to achieve economic growth and fiscal consolidation in a myopic fashion comes at the human cost of crushing the working class.

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<sup>18</sup>Inayatul Islam and Sher Verick, From the Great Recession to the Labour Market Recovery (Palgrave Macmillian 2011) 127

<sup>19</sup>The Precarious Relationship between Economic Development and Human Rights in Emerging Markets: The Example of Qatar', (Havana Café in Damascus, February 13, 2010) <Havana Café in Damascus: The Precarious Relationship between Economic Development and Human Rights in Emerging Markets: The Example of Qatar (havanacafeindamascus.blogspot.com)>

<sup>20</sup>ILO, R100 - Protection of Migrant Workers (Underdeveloped Countries) Recommendation, 1955 (No. 100), Article 18, 17, 16

<sup>21</sup>Economic and Social Council, Report of the United Nations High Commissioner for Human Rights on Responsibilities related to Migrants (Report, E/2010/89), Para 46, 61

<sup>22</sup>Government of Pakistan, Labour Policy 2010 (Policy Report 2010) Para 47, 48, 49